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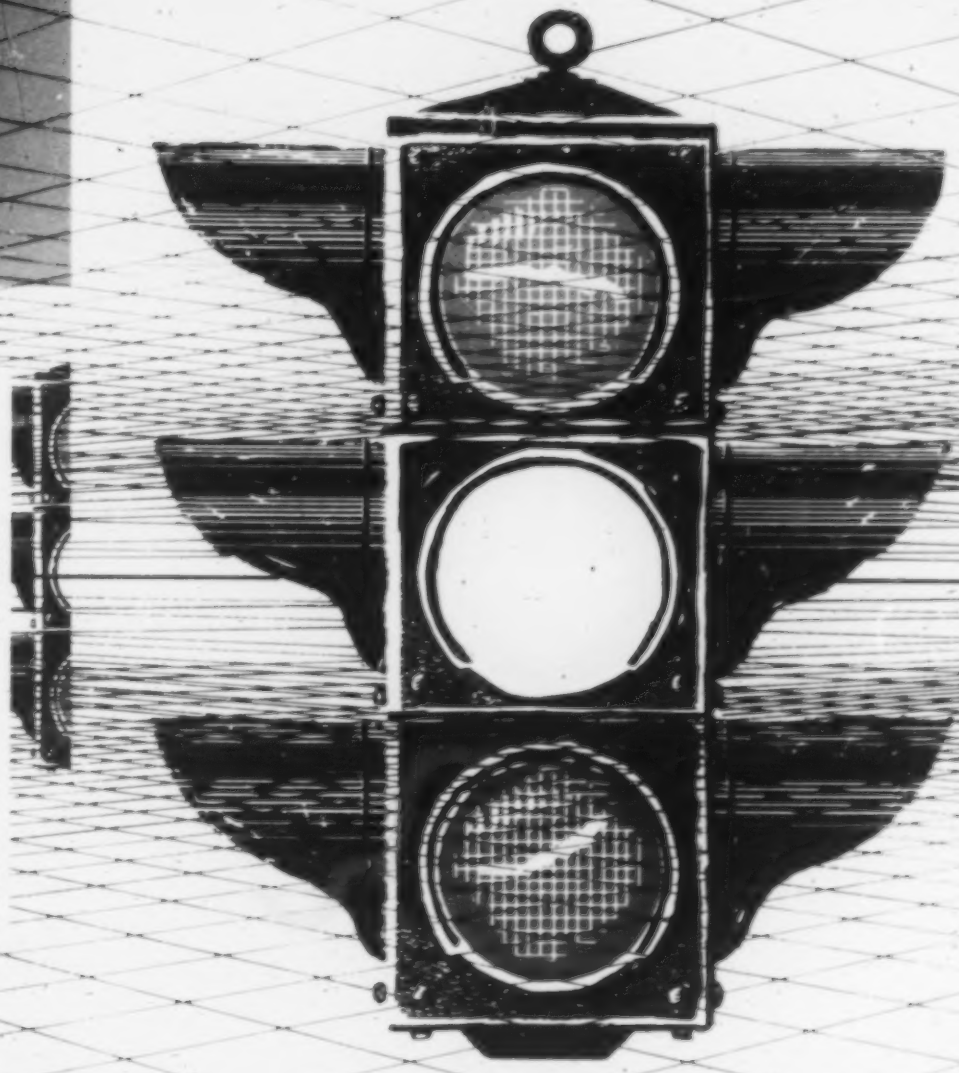
Purchasing

PW calls signals on '85 economy



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The forecast team

REICHARD
BEHRAVESH
PARADISO

Plus

Survey of buyers' plans/Econometric models/Product price outlook/Labor outlook

PurchasingWorld

Helping you manage the business of buying

Vol. 29 No. 1-January 1985

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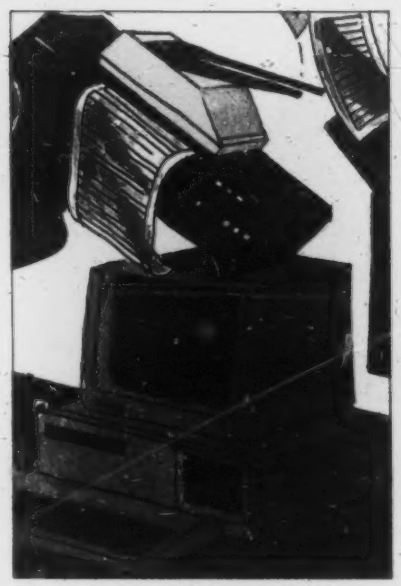

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PW PREDICTS

Robert S. Reichard, executive editor

Third year is a charm in price outlook

It almost seems too good to be true. But all signs point to a third straight year of relatively small price advances—with maybe even a few declines thrown in for good measure.

That is not only our projection, but also that of the many experts queried in this special "Forecast '85" issue. It is hard to refute the rosy picture they paint—especially when it comes from such diverse sources as:

- **Industrial purchasing managers:** Buyers responding to a special *PW* survey put the average 1985 price increase at only 4.5%. And the prestigious NAPM Business Survey Committee, which takes a more qualitative approach, finds that nearly half its members (46%) feel they will be able to hold the price line or actually effect scattered price declines over the next six months.

- **Top management:** The average increase projected by executives is put at 4%—though some modest industry-by-industry variation is expected. Then, too, there is not one single industry that forecasts anything larger than a 6% boost for the upcoming year.
- **Business economists:** *PW*'s own Dr. Louis J. Paradiso looks at prices from three separate vantage points—the GNP deflator, producer finished goods prices, and the cost-of-living index—and comes up with 1985 increases of only 3.6%, 2.5%, and 4.5%.
- **Econometric models:** Surprising agreement is also noted among the four big models surveyed—with the average 1985 increases anticipated: GNP deflator (4.3%), finished producer goods prices (3.1%), and the cost-of-living-index (4.2%).

There is no one big reason for all this optimism. Instead it can all be traced back to a combination of many factors:

- **Still ample supplies**—Paradiso, for example, sees only an 82% overall factory operating rate for the next 12 months. That is still under the 85% level generally regarded as the cut-off point between a buyers' and a sellers' market.
- **Relatively restrained unit labor cost increases**—probably something in the order of only 2-3% for the overall nonfarm economy.
- **The absence of energy pressures**—some analysts feel oil could actually decline if recently reduced OPEC production quotas are exceeded.
- **A continuing strong dollar**—not only making imports cheaper, but putting pressure on domestic producers to hold the price line.
- **Bumper food crops**—big enough to keep supermarket tags from rising more than 3-5% in 1985.
- **High interest rates**—The 11% and higher prime rate envisioned for 1985 should discourage excess buying on the part of both businessmen and consumers.
- **The absence of inflationary psychology**—something which in the past has led to anticipatory price increases and the willingness by buyers to accept them.

Energy price trends

More good news on the energy front.

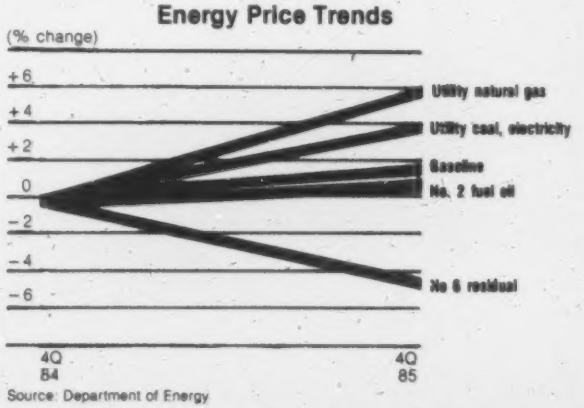
This time it is from the Department of Energy which periodically projects near-term fuel prices. The agency's latest overall appraisal: stable to only slightly higher average quotes through 1985

That is not to say, however, that individual sectors will all remain unchanged. But small increases in some areas will be offset by stable or lower readings in others.

Make the assumption that imported crude oil will remain at $29/bbl and the situation is expected to shape up like this:

- **Gasoline:** Pump prices will continue to average in the $1.20 range—though some seasonal swings are likely.
- **Heating oil:** Only about a 1¢/gallon boost is seen during the first quarter—much less than a year ago when cold weather forced a big 7¢/gallon jump.
- **Residual oil:** Displacement by coal and nuclear power (forcing as much as a 6% drop in demand in 1985) could bring prices down about 4.5% in 1985
- **Natural gas:** Partial decontrol will make for some upward pressure on the wellhead level, the overall advance through fourth quarter 1985 may only be in the 6% range.
- **Electricity:** Average boosts through the end of the year will come to only about 4%—well under 1984 gains. One reason: Interest rates and the cost of capital to electric utilities are heading lower.

Energy Price Trends



Source: Department of Energy

PW PREDICTS

Textiles

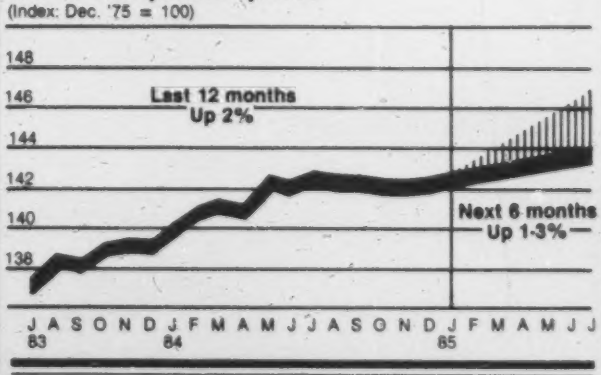
CURRENT SITUATION: It's been a rather bearish year for this industry—at latest report, production is running close to 7% below year-earlier highs. And an even sharper decline of 15% is noted for carpeting. **Prices aren't all that firm either—recent softness is reported both in the fiber and fabric sectors of the market.** Behind this lackluster performance: skyrocketing imports (up some 40% in 1984) and recent consumer caution.

DEMAND: No dramatic turnaround seems even remotely possible. The recent tightening of import restrictions will be of some help but this will take some time. **The economic slowdown is having a negative impact on the textile industry**—one econometric model is calling for only about a 2% increase in demand. An even more bearish report comes from within the industry—**A recent survey of textile executives suggests less than a .5% gain in real sales for 1985.**

SUPPLY: Falling operating rates attest to the basically oversupplied situation. At latest report, the average domestic facility was operating at 83% of its potential—far under the 90%-plus reading of one year ago. Foreign supply is also ample. **The situation in basic fibers also suggests few problems.** And the 1984 cotton crop is estimated at 3.3 million bales—up 70% from 1983. The current 82% operating rate in manmades is expected to remain unchanged in 1985.

PRICE OUTLOOK: Recent softness shows every sign of spilling over into 1985. Polyester staple quotes are now in the 76¢/lb range—off 2¢/lb from a year ago. And raw cotton remains in the low 60¢ range—more than 10¢/lb under a year ago. Some fashion fabrics may inch up but such hikes will be exceptions rather than the rule. Result: **Overall textile prices may rack up a 2-3% gain in 1985.** And even this depends on continued GNP gains and on import curbs.

Textile mill product prices
(Index: Dec. '75 = 100)



Computers

Over the next 6-12 months you will be seeing home computers with higher tags—generally in the $1,000 range (far higher than the $100-$200 models that have dominated the market so far, but well under the $2,000-$5,000 PCs aimed at the business market. More important, the extra money will buy a lot more sophistication and power. These machines will have more powerful microprocessors and larger memories with disc drives and high-resolution monitors that can display sophisticated graphics.

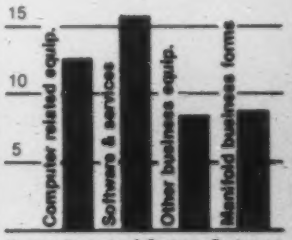
Paper

Discounting is cropping up in several key grades (notably uncoated white paper) except linerboard and market pulp. The threat of new capacity is also putting downward pressure on tissues—with shading reported in both the consumer and industrial sectors of this latter market. Preliminary estimates suggest only moderate shipment gains in the key corrugated box area—only about 3.5% in 1985 to 284 billion square feet—in sharp contrast to the big 8%-plus advance racked up in 1984.

Business equipment and supplies

Another good year looms ahead, with industry revenues expected to jump at a 12.4% rate in 1985—bringing total sales to near $173 billion. Since prices do not seem to be climbing significantly, the real volume gain is likely to be almost as large. Some of the 1985 increases projected for key segments of the industry (as estimated by the Computer and Business Equipment Manufacturers Association): computers and related equipment which account for three of every five dollars spent (12.4%), software services (15.5%), other business equipment (8.2%), and manifold business forms (8.5%).

Business equipment & supplies
(% change in '85 sales)



Source: Computer & Business Equipment Manufacturers Assoc.

Semiconductors

Toned down computer sales estimates are causing reduced demand and falling prices. On the demand front, all signs now point to only a 7-15% increase in chip orders—down sharply from the almost 50% boost of 1984. Couple this with increased capacity (the 1984 addition equalled that of 1982 and 1983 combined)—and it spells price softness. Thus the popular 64K random access memory (RAM) chip has been virtually halved, falling to near $1.85. And the new 256K

Aluminum

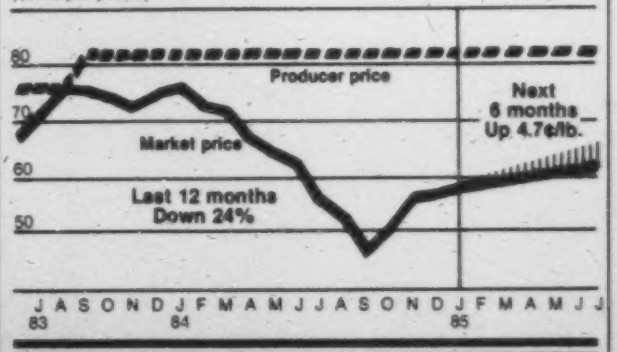
CURRENT SITUATION: Markets are still somewhat shaky. Merchant ingot is up a bit from the under 50¢/lb levels of late summer. But there is softness in the fabricated area where producers have been offering as many as six 5% discounts on common alloy sheet. On a more bullish note, production cutbacks are beginning to correct a big inventory imbalance—**though stocks still remain well above normal levels.**

DEMAND: Orders picked up a bit during the fall months—thus helping to push total domestic 1984 shipments up some 3-4% (to near 15 billion lb). Next year's gains should also be quite modest (maybe 1-4%). In the long run, **don't expect any more than 3-4% advance for the rest of the decade.**

SUPPLY: Shorter leadtimes and high producer inventories would seem to suggest clear sailing. Global holdings are estimated to be running better than 20% above year-earlier levels. Recent production cutbacks should bring these levels down a bit after mid-1985. **But there is plenty of excess capacity should demand suddenly spurt.** Imports have been adding substantial tonnages to domestic supply and the growth in recycled metal has reduced demand for primary material by about 1 million metric tons.

PRICE OUTLOOK: Some increases would seem to be inevitable—given recent production cutbacks and the modest demand gains envisioned for 1985. But the precise timing is uncertain—though an ingot move into the 65¢/lb range with commensurate increases in the fabricated lines can't be ruled out by late spring or early summer. Also suggesting higher prices are production costs which here in the U.S. are estimated at near 60¢/lb. **On the other hand, there is little to suggest any near-term bounceback to the 75¢/lb peak of last winter.** It could be well into 1986 before this level can be reattained.

Aluminum ingot price
(Cents per pound)



chip could be down to about $10 by next fall. A similar situation is shaping up in transistor-transistor logic (TTL) devices where prices have slipped 30-40% from last year's highs.

Cellular phones

Prices are tumbling. The basic unit which commanded an average quote of near $2,500 last summer now fetches only about $1,500. And further declines seem all but certain—as Tandy will soon come out with a new $1,000 model. Some lease agreements are also available—for as low as $99/month which includes about an hour's worth of peak time calls and the option to buy the unit after three years.

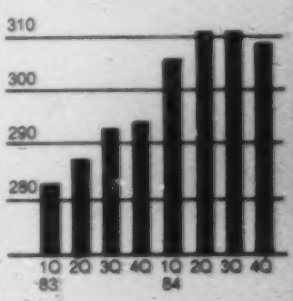
Lead

An improving labor situation (some big domestic strikes have been settled) is making for sharply lower prices. The current low-to-mid 20¢ range, for example, represents as much as a 5¢/lb decline from recent fall highs. But don't expect prices to fall out of bed—especially if winter is colder than normal (which could hype the demand for car batteries).

Plastic resins

Another moderately good year looms ahead. The industry, for example, is now betting on about 6% real growth for the new year—close to 1984's big 7% jump to 44.3 billion lb and double the anticipated GNP growth rate. Prices have stabilized after recent declines—with even a few cents being added to off-list quotes of both PVC and ABS pipe-grade resins over the last month or two. Some further modest recovery in overall plastic price average is anticipated for 1985—with the 12-month increases averaging out somewhere in the relatively low 3-4% range.

Plastic resin prices
(Index: 1967 = 100)



Farm equipment

Discounting is rampant—as producers move to pare top-heavy inventories. Some discontinued tractor models, for example, could soon sell for as little as 40-50% of their list value. Average tractor quotes have already dropped sharply—from their regular $85,000 list to only $50,000. And even more precipitous declines are noted in combines where models designed to sell for $180,000 now go for less than $100,000. The big problem is overcapacity—with both tractor and combine output averaging under 30% of industrial potential.

Paper

Count on fairly adequate paper and paperboard supplies—through 1985 and probably into the 1986-87 period as well.

Increases in domestic mill capacity over this time span will be quite modest—1.2%, 1.7%, and 1.7%, respectively. But demand, too, won't be all that ebullient.

Thus, Norma Pace, senior vice president of the American Paper Institute (API) sees paper buying following the GNP trend on 1:1 basis. If you accept her 3.5% GNP advance, then paper should be up the same amount in 1985. The implication is operating rates will rise only another percentage point or so.

Mrs. Pace adds that this kind of increase is feasible—given the industry's past history of always being able to squeeze out a bit more if needed via adjustments and better scheduling. In 1984 , Mrs. Pace notes that these actions allowed the industry to "find" some 700,000 additional tons.

Then there are always imports. There is more than sufficient overseas capacity. And if 1984 is any indication, domestic buyers will be able to fill any holes by going overseas—and at tolerable prices (given the strong dollar).

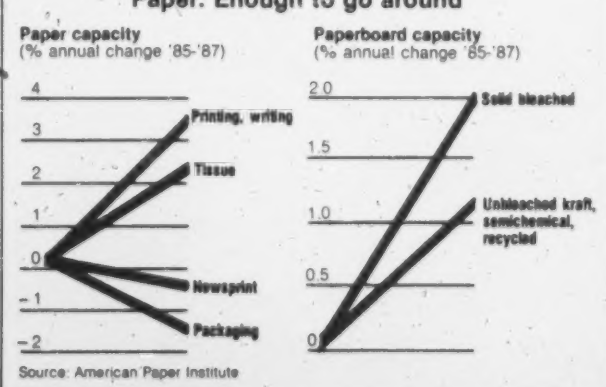
That is not to say that some spotty tightness might not develop in linerboard from time to time. But it will be manageable, according to API executives.

There is not much concern about prices either. The API steers clear of this subject. But if you read between the lines, any increases are likely to be modest.

There is little indication of any significant cost pressures. Thus 4% productivity gains are offsetting most pay cost boosts—and both energy and chemical tags are moving up very slowly.

Not much of a price increase then? A look at econometric models, which factor in both cost and market factors, suggests only about 5-6% advance.

Paper: Enough to go around



Source: American Paper Institute

Zinc

Production cutbacks seem to be bringing the market into somewhat better balance—with U.S. producer stocks slowly being pared. But things are not all that firm—producers continue to shave as much as 2-2.5% off their lists. Demand, on the other hand, remains fairly good—helped by (1) Red Bloc buying, (2) a 4% increase in zinc usage per U.S. car, and (3) rising demand for zinc oxide from the booming tire industry. Upshot: Current prices should hold—with maybe even a small boost if recent production restraints can be maintained.

Copper

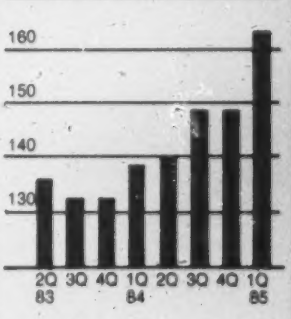
The recent fall rally seems to have fizzled out—with quotes back in the low 60¢ range (off about 4¢/lb from recent highs). But the prognosis is still moderately bullish. Thus exchange stocks—while still high—have been halved over the past year. And about one million tons of North American capacity have been idled. The substantial 7% increase in 1984 global demand should also help buoy prices. Best bet: an average 1985 quote of about 70¢/lb.

Sulphur

Add another $15/ton to the going price. the bellwether FOB Tampa quote, for example, has just moved up to $162.50/long ton—though TVAs amounting to as much as $10/ton still remain in effect. Blame it all on shrinking world inventories. Saudi Arabian stockpiles have dried up and Canada's holdings are dropping by as much as two million tons per year (to only about 12.5 million tons currently). Moreover, with demand from fertilizers still pulling stocks down, further price hikes seem likely—along with increases in such key derivatives as sulphuric acid.

Sulfur

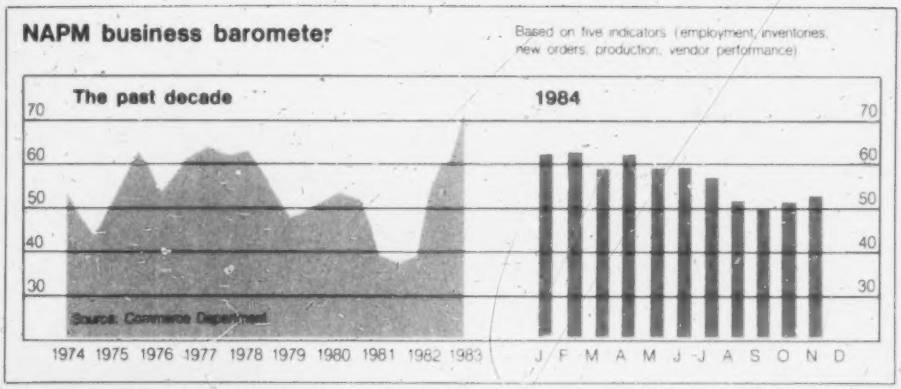
($1 long ton, FOB TAMPA)



Steel

Markets continue to be unstable—with one analyst (Peter Marcus of Paine Webber) estimating that as much as $20/ton was shaved off the average quote during the last six months of 1984. Nor does he expect any dramatic reversal of this trend—at least not over the next few months. His outlook remains bearish for 1985—seeing only about a $15/ton average hike. Holding price increases down will be continuing high imports and not too strong domestic shipments (roughly 77-79 million tons is projected.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1984
70
60
50
40
30
Source: Commerce Department
1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
J F M A M J J A S O N D

KEY ECONOMIC TRENDS

No big peaks, no deep valleys

Decelerating growth—yes. An actual downturn—no.

That's not only the consensus of all the projections in *PW*'s special "Forecast '85" section in this issue, but also one suggested by taking a more detailed look at some of the sensitive near-term business indicators.

Despite the talk of problems in the months ahead, the NAPM Business Barometer—a yardstick that has consistently called the business turn a few months in advance—actually rose more than a point over the last month (to 50.8). That again puts it above the neutral 50 mark—suggesting expansionary forces are again outweighing those pointing to contraction.

Some of the more specific factors contributing to this encouraging conclusion would have to include (1) recent slippages in interest rates, (2) still low stock-sales ratios—ruling out the possibility of firms living off their inventory fat, and (3) continuing strong government spending increases.

Top corporate executives also seem confident—judging from their new 1985 forecasts. And the same can be said about consumers—with the latest Conference Board optimism index showing a sizable five point rise to 96.1 (1969-70 = 100).

All this is not meant to imply that future economic growth will equal that of late 1983 and early 1984. Reason: There are other indicators—such as capital investment—which suggest a more moderate growth track.

The the Conference Board's latest capital appropriation figures (forerunners of actual spending) now show a fair-sized dip. But the decline is from the exceptionally high levels of the previous quarter (see chart). In any event, the backlog of unspent appropriations continues to grow—suggesting that further capital spending gains are still likely.

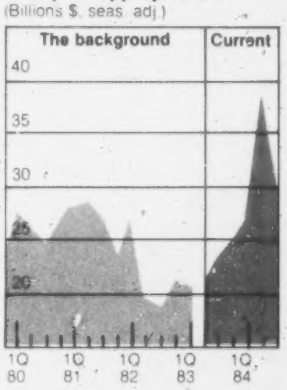
New orders for durable goods are still another barometer pointing to moderate business gains. These incoming bookings are off considerably from recent highs (center chart). But backlogs—a more meaningful indicator of activity over the next few months—remain close to peak levels.

The huge influx of imports also has to be regarded as a restraining force. The Commerce Department, for example, is now predicting about a $150 billion trade deficit for 1985—and this has to have some negative impact on production and GNP.

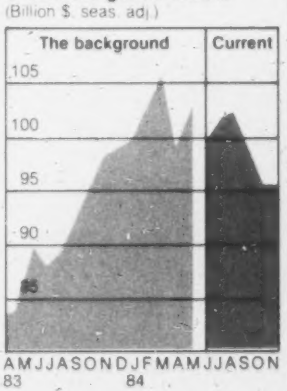
Both plus and minus factors are buffetting the economy, but if there is still any doubt about what it all adds up to, take a look at the current employment picture. The fact that help wanted ads are up (see last chart), would certainly attest to continuing business confidence—for job openings

Leading indicators

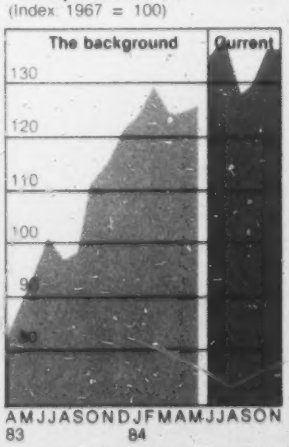
1. Capital appropriation
(Billions $, seas. adj.)



2. Durable goods orders
(Billion $, seas. adj.)



3. Help wanted
(Index 1967 = 100)



only appear when corporate America is betting on further gains.

Also, the unemployment rate is now only slightly above the 7% level and edging lower. This has to be regarded as a positive sign because it means that consumer incomes will continue to rise over the winter and spring months.

A look at what the big econometric models are predicting best sums up the near-term outlook. They suggest small 2% increases in industrial production at an annual rate through mid-year. While nothing like the big 8% and higher gains of early 1984, they do seem to insure continuing increases for most major industries—with the one exception of housing where high mortgage rates are finally beginning to take their toll.

Operating rates level off

Earlier fears of possible supply tightness have all but disappeared. Given the recent GNP slowdown, it looks like clear sailing—not only for the next 6-12 months but well into 1986.

After climbing steadily through most of 1983 and the first part of 1984, factory operating rates (expressed as a percent of production) have begun to level off—with some fractional declines noted in recent months.

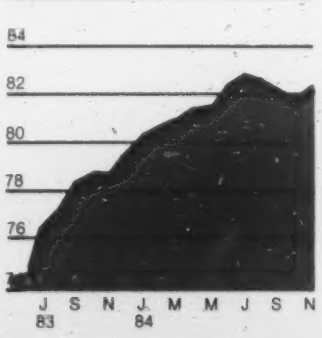
The current level (82%) is also encouraging—traditionally the transition from a buyers' to a sellers' market occurs only at the 85% level. More important, any move to that higher level seems all but impossible today—given forecasts for (1) a continued upcreep in new capacity and (2) only a 2-3% increase in industrial output over the next 12 months.

The relative abundance is pretty much spread out among all basic industries and seems to embrace producers at all levels—raw materials, semi-fabricated items, and finished goods. The only problem area seems to be paper, which is now running at near capacity. But it is important to remember that this industry prefers to operate at over 95% and that new capacity projections suggest that there should be enough to go around.

Also worth noting: the low (72.6%) reading in chemicals—an area which also covers plastic resins. This reading suggests not only ample supplies but also continued competitive pressures.

Factory operating rates flatten out

All manufacturing
(% of rated capacity)



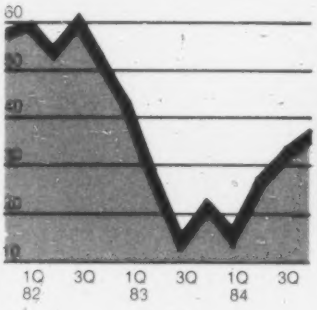
Industry-by-industry
(Current rate %)

Stone, clay, glass	77.3
Steel	66.4
Nonferrous	84.2
Fabric metal products	76.9
Nonelectrical machinery	81.7
Electrical machinery	91.4
Automotive	81.7
Aerospace	77.2
Instruments	81.1
Textile mill products	82.8
Paper & products	97.3
Chemicals	72.6
Petroleum products	79.1
Rubber & plastics	94.5

Source: Federal Reserve Board

Credit trends at a glance

Day's sales outstanding



Vendor policy through mid-85

Source: National Association of Credit Management

Turning the screws on credit

More stringent vendor credit policies may soon be in the offing. So say more than two out of every five respondents to the latest quarterly National Association of Credit Managers survey.

That's a hefty 28% increase over the number of NACM members making such a projection just three months earlier. The tightening is expected to take many forms—accelerated collection calls, earlier placing of past due accounts on a C.O.D. basis, filing more liens, placing more accounts for collection with outside collection agencies, and the resistance to pressure from the sales side to improve credit for marginal accounts and for customers with their own cash flow problems.

The major reason for this get-tough approach: a rise in days supply outstanding (DSO). At latest report (fourth quarter 1984) it had reached 37 days. More important, this marks the third straight quarterly rise (see chart alongside).

The current figure is still nothing like the recession readings of 1982 when 50-60 days were the norm. Still, the DSO rating significantly affects bottom line performance since every 30 days extra is the equivalent of a 1% profit drain (given today's 12% interest rates).

Another interesting finding: Despite the projected tightening, most credit managers aren't expecting miracles. When asked to estimate DSO over the next six months, many more saw increases (37%) than decreases (18%).

Given all of the above, it is not surprising that credit managers now deem slow-paying customers as their primary headache—with 96% of the survey respondents currently noting concern.

CURRENT PRICES

Year ends on good note, 1Q the same

The year has ended on a good note—with little significant change in overall industrial price averages noted over the last 30 days. Add in the good performances of other recent months and the advance over the year just ended now looks to be less than 2%.

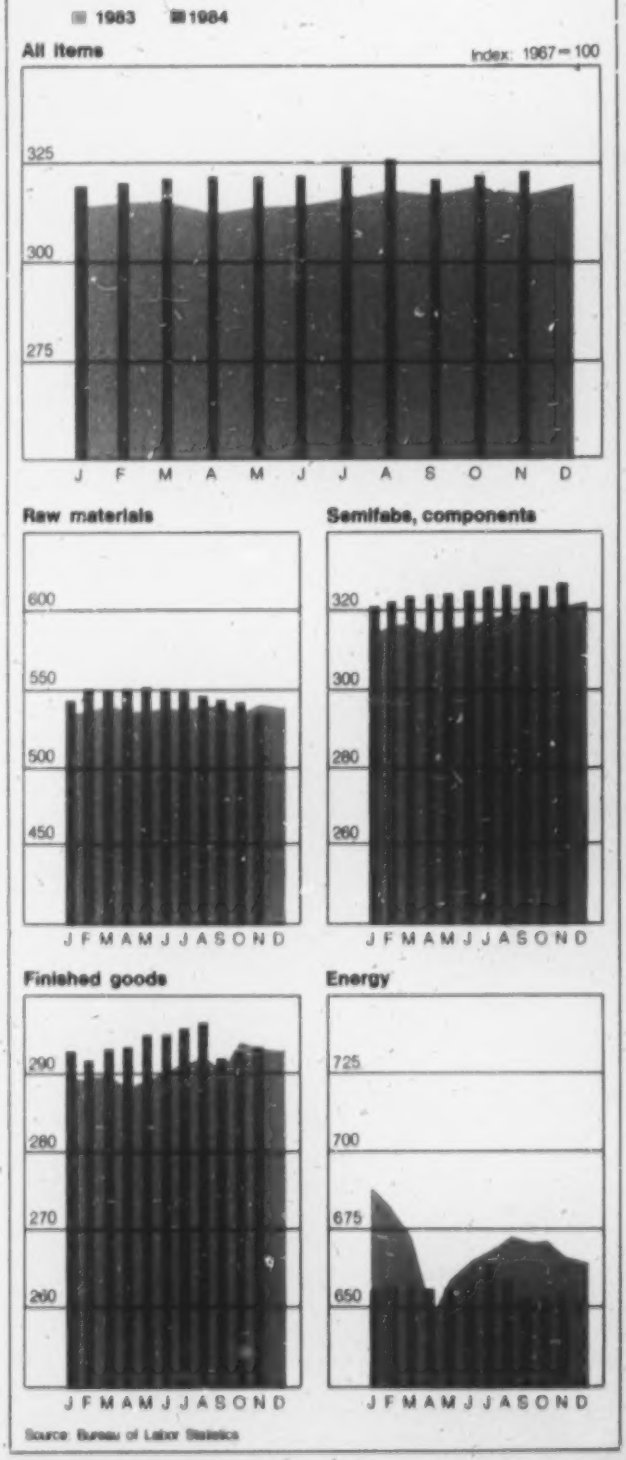
You would have to go back to the pre-OPEC days of the 1960s to top that. And preliminary signs seem to indicate that the first quarter will be almost—if not as good. True, some increases have been announced. But they are not nearly as numerous as might normally be expected at the beginning of a new year.

Another good omen:

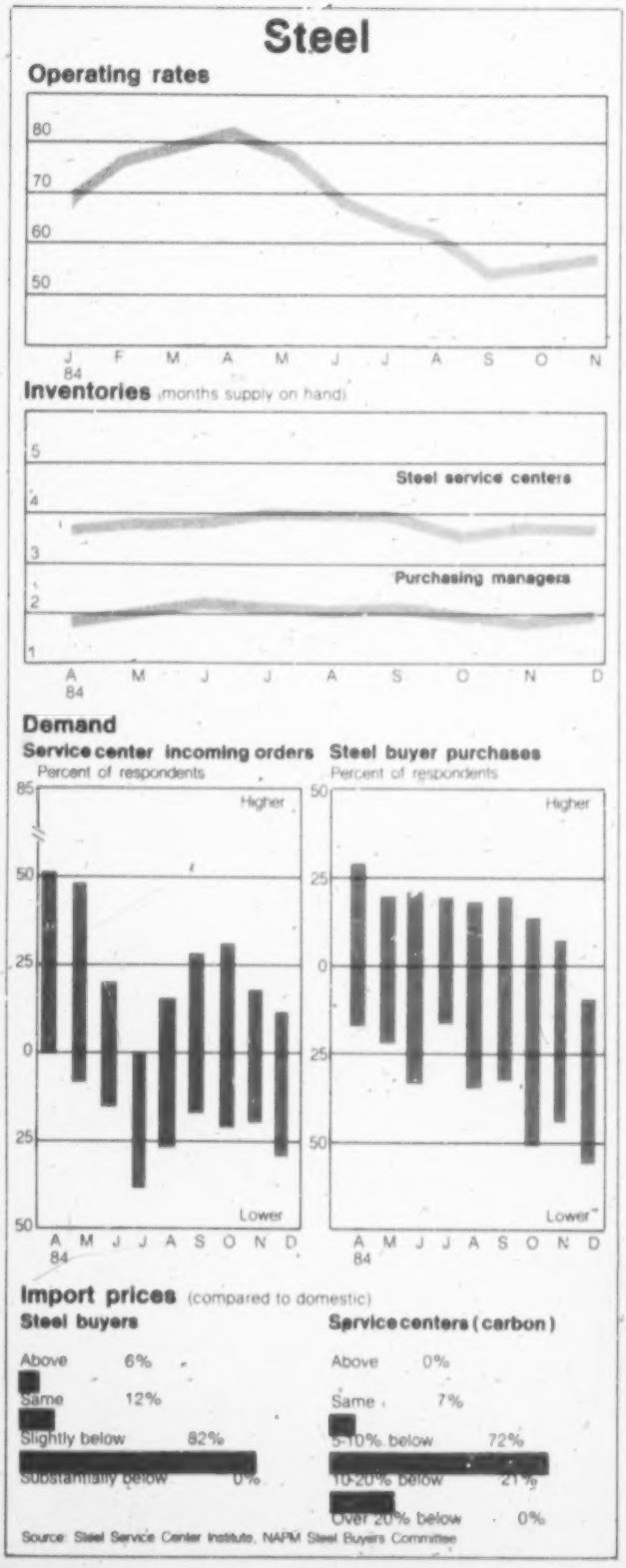
This month's breakdown

	Latest level (Nov.)	% change from: Month ago	Year ago
Bearings	345.5	0.1	3.4
Bolts, nuts, etc	276.9	−0.2	2.5
Chemicals, inorganic	296.5	−0.3	1.8
Chemicals, organic	351.6	−0.6	−5.7
Concrete products	311.4	0.0	2.4
Corrugated cartons	281.2	2.2	11.7
Cutting tools, small	284.3	0.5	2.2
Electric lamps (bulbs,	340.7	1.4	4.1
Electronic components	196.7	0.5	5.1
Fans and blowers	351.5	0.0	4.5
Foundry and forge products	362.5	−0.2	2.7
Fuel oil (residual)	1131.7	1.7	0.6
Furniture, commercial	301.0	1.0	3.8
Gasoline	564.1	0.6	−5.8
Glass, flat	217.4	−0.3	−5.5
Glass containers	364.9	0.0	4.1
Gypsum products	332.3	−2.1	5.5
Hand tools	364.6	0.1	3.7
Hand tools, power driven	226.4	0.0	2.6
Industrial furnaces	381.8	1.4	3.4
Integrating and measuring instruments	231.0	0.3	3.8
Internal combustion engines	347.7	0.2	3.3
Lubricating oil	794.5	0.0	1.5
Lumber millwork	309.8	1.0	0.6
Material handling equipment	291.4	0.1	1.9
Metal containers	357.5	−0.1	5.7
Metal mill shapes (nonferrous)	317.5	0.6	1.6
Metal tanks	306.2	0.2	0.7
Motors and generators	341.7	−0.4	1.7
Motor trucks	290.3	0.2	3.7
Office and store equipment	154.0	0.0	−0.3
Paperboard	293.4	0.5	13.1
Paper boxes and shipping containers	272.8	1.1	8.3
Paper office supplies	243.5	0.0	7.1
Paint	277.0	−0.4	4.7
Plastic resins	308.8	0.0	3.7
Precision measuring tools	255.0	0.1	4.3
Pumps and compressors	354.3	1.1	2.5
Refractories	366.6	1.1	3.8
Rubber belts and belting	346.7	−0.7	6.1
Scales and balances	230.2	−0.9	0.9
Steel products	365.3	−0.2	2.5
Switchgear	274.9	0.1	0.6
Textiles, synthetic fibers	157.5	−0.4	−1.1
Textiles, gray fabrics	154.7	0.0	2.2
Tires and tubes	243.9	−0.8	0.6
Transformers and power regulators	228.9	0.4	3.2
Welding equipment	284.6	0.1	2.3
Wire and cable	201.4	0.2	−0.1

Industrial prices



Source: Bureau of Labor Statistics



There are still a considerable number of price declines sprinkled in among the "no changes" and few increases. Over the last month or so, for example, weakness has persisted in such key areas as steel, many nonferrous metals, petrochemicals, and a host of component parts.

Energy tags, too, have been on the shaky side—with overall averages off more than 1% over the last year and gasoline viewed separately down by close to 6%. More important, recent weakness in world crude oil prices would seem to just about rule out any near-term increase in this critical sector.

Finally, even machinery hasn't escaped the downward pressure with farm equipment especially soft. Ditto, office equipment where competition and technological breakthroughs continue to make for easiness in computers, office copiers, and even typewriters.

Taking all the above price indicators plus recent surveys of both buyers and sellers together, industrial producer tags don't look to advance by more than a few tenths of a percentage point a month with averages rising no more than 1-2% by late spring.

STEEL SCENE

Still sluggish on steel front

The sluggish steel buying pattern of late 1984 is spilling over into early 1985.

That's what both purchasing managers and service centers say. Thus, 31% of PMs responding to the latest NAPM steel buying survey expect to slow their purchases of the metal over the next three months—almost double the 17% who are currently contemplating first quarter increases.

The major reason seems to be concern over current inventory holdings. Some 46% of the queried buyers, for example, now plan on leaner stocks over the January-June period—far outweighing the miniscule 3% who feel that some further additions may be in order.

Part of this inventory retrenchment could be due to concern about future steel usage rather than to any sudden surge in steel stocks—for there's little to suggest the latter. Indeed, days supply levels haven't really moved up—holding around the 2-month level now for three straight months and actually remaining a bit under the highs hit late last summer.

Service centers tell pretty much the same story: the likelihood of reduced activity and plans for inventory cuts on their level, too. On the activity front, for example, some 28% of Steel Service Center Institute (SSCI) members surveyed feel that their orders will decrease over the next three months—vs. only about 12% who are counting on gains.

And once again, inventory paring seems to weigh heavily in their near-term plans. Specifically, some 53% say they will be cutting stocks over the next three months—in sharp

contrast to the only 5% who plan on adding.

But this, too, could be an exaggeration, given current day's supply figures. Service center holdings, for example, are off a fair amount from recent September highs.

Moreover, the near-term service center caution contrasts with their optimism over the longer pull. Their feeling on the latter score is perhaps best expressed by Andrew G. Sharkey, SSCI president, who recently repeated an earlier prediction that 1985 shipments would be up anywhere from 800,000 to 1 million tons.

On the other hand, Sharkey does admit that gains will be spotty rather than across the board.

Given the above, he feels that much of the projected 1985 service center gains will come from improving market share vis-a-vis the mills.

It might also be added that mill men are also fairly bullish over the longer pull. Thus they put domestic shipments as high as 79 million tons.

Much of this optimism is premised on a decline in imports due to recently announced voluntary curbs.

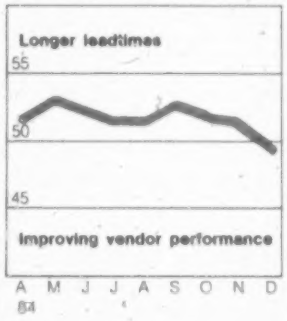
Many steel buyers, for example, are still talking about greater rather than a reduced dependence on off-shore suppliers (21% seeing increases over the next six months vs. only 6% anticipating declines).

Service centers would seem to agree on this, too, with more than one out of every five respondents noting 11-20% price breaks in both the carbon and stainless steel sectors.

Monthly procurement status report

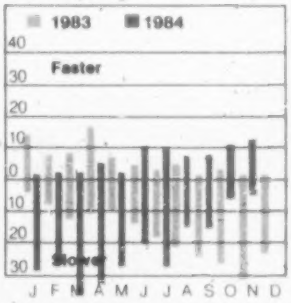
Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance.

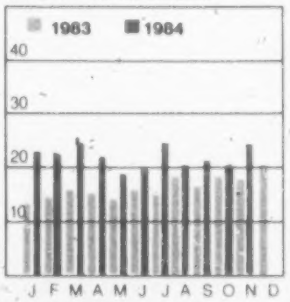


Delivery performance

Percent reporting deliveries

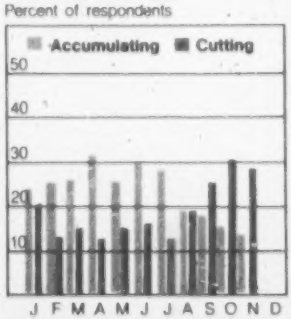


Forward commitments



Inventory strategy

Percent of respondents



Source: NAPM

PROCUREMENT STATUS

Looks like a buyers' market

The current business pace is making life a bit easier for purchasing managers these days, providing them with more bargaining leverage, fewer delivery delays, and generally slowly shrinking leadtimes.

The impact can best be appreciated by comparing current waits with those of a few months back. Many items have held steady. But out of the product lines monitored regularly by *PW*, the number coming in now is far greater than those still stretching.

This is borne out by *PW*'s exclusive leadtime index, which is under the neutral 50 level for the second straight month, and by the NAPM Business Survey question on speed of delivery: 11% of the respondents reported faster deliveries vs. 5% noting slowdowns.

That is a 6% difference and is 3% above last month—a refreshing change from the string of negative differences that appeared before.

Another sign of a buyers' market is the continued inventory paring that is being reported. Last month, for example, cutters outnumbered accumulators by better than a 2:1 margin—28% cutting vs. only 13% adding to stocks—marking the second straight month that there has been such a big differential.

Apparently, most purchasing managers have deliveries under control and are cutting stocks to minimum levels. The fact that operating rates in so many industries are also well below preferred levels would also tend to support this "keep 'em lean" strategy.

So would the dwindling list of items in short supply. Over the past month, the NAPM listed only one item, tall fatty acids. Electronic components, which have been steadily mentioned in the past, were conspicuous by their absence.

What's ahead? Most buyers queried see about the same pattern through late winter and into spring.

Leadtimes

Chicago: Changes both ways here. Coming in are chlorine (1-2 weeks), bichromates (1), plastic film laminations (10-12), narrow galvanized sheet (6), and wide galvanized sheet (8). Edging out are aluminized sheet (7), plastic shrink film bags (6), and PVC resins (1-4).

Cleveland: Status quo here with these weekly leads: corrugated (3), folding boxes (4), 2-ply fiber drums (2), reconditioned steel drums (1-2), coil coating paint (5), polyethylene and PVC resins (3-4), cold-finished aluminum (12-14), and alloying materials (on demand).

Los Angeles: Heavy duty aluminum sheet is in (to 13 weeks). Other reduced weekly waits include copper tubing (12-14) and electronic components (17-26). Lengthening somewhat are grey iron castings (7-8), brass castings (8-10), heavy duty steel (12-14), aluminum pipe (17), electric cable (17-26), and fasteners (16).

BUSINESS DATATRAK

Houston: Poor demand has reduced waits for high-pressure heat exchangers (to 26-35 weeks). MRO items remain stable at 0-3 weeks. Ditto electronic components (6-8), centrifugal compressors (41-56), turbogenerators (21-65), forgings (5-7), control valves (8-26), structural steel (13-17), and pumps (0-6).

Philadelphia: Stainless steel round coil has come in to 12 weeks. Further spotty declines in other steel areas are expected if demand remains soft. Xerographic paper has softened to 1-2 weeks. Corrugated has stretched (to 3). No changes in MRO items such as standard drills and taps (2-4).

Pittsburgh: Leads on some alloying materials have dropped—to 2 weeks on manganese and to 3 on silicon. Other current weekly waits: polyethylene (5), PVC resins (6), plastic bags (3-4), paper bags (4-6), corrugated (3-4), all types of drums (1), lumber (3-4), and steel strapping (2-3).

Leadtimes (in weeks)

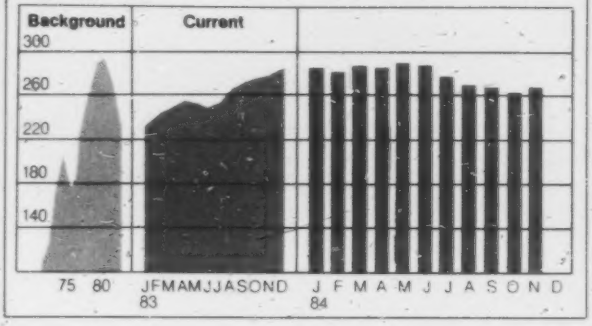
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	9	9	9
C-R Sheet (Chgo)	5	5	5
Plate (Phil)	10	10	10
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	7	7	7
Galvanized (LA)	14	14	14
Galvanized (Chgo)	6	10	6
Structurals (Chgo)	4½	4½	3½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	7½	7½	5
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	17	17	17
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	17	17	20
Motors (Phil)	15	15	15
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10	10	20
Relays (Chgo)	15	15	15
Resistors (Chgo)	12	12	14
Resistors, Wirebound (Phil)	10	10	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	5	5	5
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3½	3½	3½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2½	2½	3
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	4	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	7	7	13
Aluminum Plate (Chgo)	14	14	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	13
Brass Castings (LA)	9	9	7
Brass Rods (Chgo)	6	6	10
Brass Sheet (Chgo)	7	7	17
Brass Tube (Chgo)	5	5	9
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	5½	5½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	4	4	4
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	4
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	7
Fasteners, Std. (Phil)	4	4	2½
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	20
Heat Exchangers, Hi-pressure (Hous)	31	35	43
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2
Pumps (Hous)	35	35	35
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month	268.3
Month before	266.4
Year ago	179.8

Index: 1967 = 100



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	25.10	25.10	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	17.50
Steel, bars, Pitts., cwt.	23.95	23.95	17.50
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	26.00
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	26.15
Steel, strip, C.R., Chi., cwt.	35.30	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.538	0.555	0.750
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.20	5.20	4.95
Brass, red, 85%, [sheet], lb.	1.25	1.28	1.22
Brass, yellow, [sheet], lb.	1.20	1.23	1.17
Cadmium, ton lots, lb.	1.25	1.55	1.25
Copper, electrolytic, wire bars, refd., lb.	0.63	0.66	0.67
Copper sheet, over 24 in., lb.	1.34	1.37	1.31
Lead, common, N.Y., lb.	0.23	0.25	0.25
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.38
Mercury, 20 fl. lots, N.Y., fl.	323.00	328.00	323.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	6.87	7.80	9.35
Tin, Straights, N.Y., lb.	6.02	6.14	6.30
Zinc, Prime West, East St. Louis, lb.	0.45	0.45	0.49
Zinc, die casting alloy, No. 3, lb.	0.515	0.515	0.555
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	760.00
Watermarked bond, ton	985.00	985.00	915.00
Gummed sealing tape, carton	16.25	16.25	15.45
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	350.00	350.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.400	0.399	0.317
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.04	1.04	1.02
Cotton middling, 1", N.Y., lb.	0.603	0.588	0.716
Printcloth, 48", 80x80, N.Y., spot, yd.	0.78	0.80	0.85
Army duck, 37", 13 oz., yd.	1.78	1.78	1.69
Blended printcloth, 64", 78x54, yd.	0.77	0.70	0.71
20s combed yarns	2.12	2.12	2.10
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.430
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	195.00
Benzene, petroleum, tanks, Houston, gal.	1.15	1.16	1.45
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.81	0.81	0.73
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.54	0.54	0.45
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.29	0.29	0.42
Polypropylene, homopolymer grade (market price), lb.	0.38	0.38	0.38
Polystyrene, general purpose grade (market price) lb.	0.37	0.37	0.40
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.35	0.35	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	162.50	147.50	132.50
Sulphuric acid, 66%, commercial, tanks, ton	56.85	56.85	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.26	1.25	1.35
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	308.95	306.85	318.25
Lumber, 2x2, pine, mbf, cl	286.15	292.50	313.50
Plywood, plyform, ¾", msf, cl	573.05	575.00	546.35
Plywood, ⅜", msf, cl	379.15	381.35	355.25
Cement, bulk, ton, tl	63.74	63.74	61.88
Sand, ton, cl	6.23	6.22	5.99
Ready-mix concrete, 3,000 psi/cu yd., 15 cu. yd.	47.62	47.62	45.64
Crushed stone, 1½", ton, cl	7.47	7.44	8.01
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.79	0.78	0.76
Gypsum sheathing, ½"x1"x8", msf, tl	206.40	208.77	181.57
Brick, common, per thousand, tl	177.23	175.63	171.33
Asphalt paving, AC-20	172.14	171.03	158.71
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.13	7.11	6.80
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	26.25	26.25	24.40
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	30.75	30.50	30.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.760	0.805	0.820
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.723	0.770	0.770
Heating oil, No. 2, Chi., bulk, gal.	0.795	0.800	0.785
Heating oil, No. 2, N.Y., bulk, gal.	0.808	0.808	0.818
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.25
Jet kerosene, gal.	0.768	0.760	0.780
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.425	0.420	0.460
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	81.00	81.00	90.00
Steel, No. 1, hvy., dlvd., Chi., ton	75.00	82.00	83.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.545	0.560	0.605
Copper, No. 2, East, wholesale buy,	0.455	0.465	0.510
Brass, red, East, wholesale buy, dlvd., lb.	0.505	0.520	0.565
Brass, yellow, East, wholesale buy, dlvd., lb.	0.345	0.335	0.320
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.335	0.325	0.450
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.355	0.345	0.475
Zinc, old, East, wholesale buy, dlvd., lb.	0.20	0.20	0.19
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.12	0.13	0.15
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	15.00	24.00	25.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	15.00	21.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.120	0.120	0.105
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.35	0.37	0.33

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

reduction.

The reasons are not too hard to find: (1) Outlays for entitlement programs will still be increasing, (2) Defense spending looks to be headed higher, (3) Net interest is already running over $120 billion at annual rate and is increasing $20-25 billion a year, and (4) Transfer payments are still rising.

True, social programs can be cut some. And some paring of defense spending is feasible. But much depends on the international situation and progress in arms control talks.

In any case, it is doubtful the new Congress will take much action to control the deficit, let alone make any significant moves to bring it down very much. And, if the economy should stumble, the deficit could well worsen. In short, **we will be living with triple-digit budget deficits for a long time to come.**

The U.S. dollar

In the year just ended, imports exceeded exports by more than $120 billion. That compares to a $61 billion red ink figure in 1983 and only $36 billion in 1982.

Reason: still-bouyant U.S. economy and super-strong dollar. The impact of the latter cannot be underestimated. And **the dollar is not likely to weaken appreciably over the next year.**

Expect our trade deficit to remain large—maybe even grow a bit more in 1985. Recently announced import curbs in the textile and steel sectors may provide some marginal relief, but don't expect that action to turn the tide. Any major improvement in the trade imbalance would probably require a 10% or more decline in the dollar. That does not seem to be in the cards.

Signals mixed in NAPM committee eyes

Robert J. Bretz C.P.M., director, corporate purchasing, Pitney Bowes, and chairman, Business Survey Committee of NAPM.

The respected NAPM Business Survey Committee is viewing the upcoming year with mixed emotions.

On the positive side, the NAPM committee sees another good year for prices—maybe even a bit better than 1984. But because much of this is predicated on decelerating business activity, the NAPM committee remains a bit apprehensive on just how much growth we can expect from the economy.

Only about half of the 250 top purchasing executives who report to the Business Survey Committee feels 1985 will be better than last year. While still far above the 19% who feel things could deteriorate, it does represent a major shift in thinking from a year earlier when a similar question elicited an 86% "better" and only 5% "worse" response.

The big concern seems to be about the second half of the year when 22% see declines—not all that many fewer than the 29% who are still betting on continued improvement over the first six months of the year.

In the words of NAPM committee chairman Robert J. Bretz: "After watching the economy weaken over the past months, PMs are only guardedly optimistic about predicting renewed expansion in the first half before seeing a slowdown again in the last half.

Bretz, who is director of corporate purchasing for Pitney Bowes, adds that this less-than-sensational outlook means less pressure on prices. He sees fewer increases in the first half of 1985—with quite a few declines also possible.

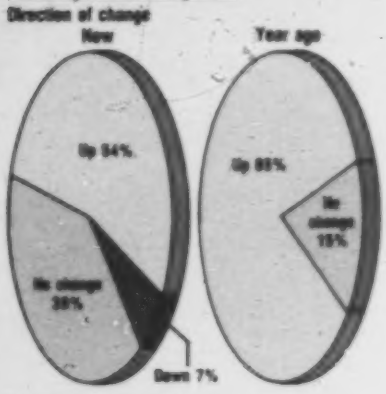
The survey findings would certainly seem to support this appraisal. Specifically, only 54% project price increases over the next six months—down sharply from 18 months ago when responses revealed anywhere from 85-90% of the queried PMs were reconciled to paying high prices.

...continued

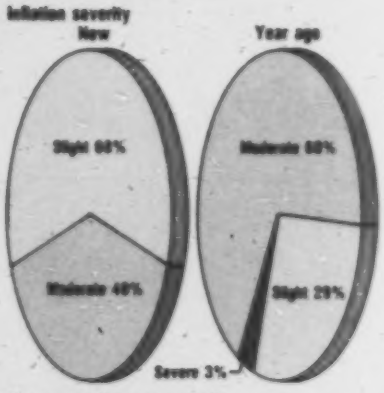
1985: an NAPM evaluation

More optimism on prices

Direction of change

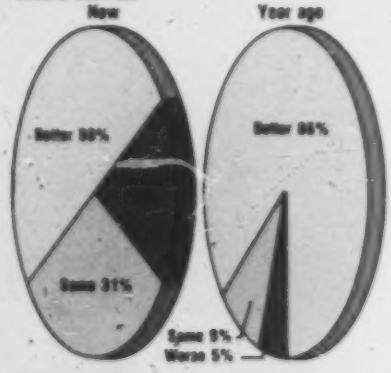


Inflation severity

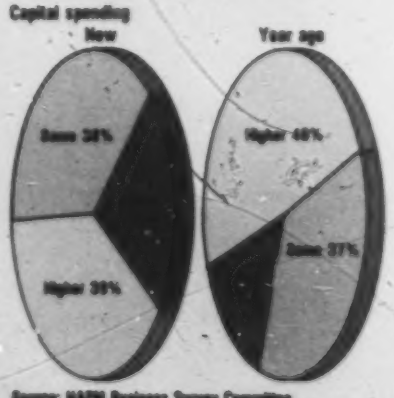


More caution on growth

General business



Capital spending



Source: NAPM Business Survey Committee

Equally significant, the number who now anticipate across-the-board increases has dropped from 33% six months ago to only 16% now. And the number who would characterize any near-term increases as moderate or severe has declined—from 88% six months ago to only 40% currently.

Finally, it might also be noted that 7% now feel they may be able achieve lower procurement costs over the next six months—in sharp contrast to the zero reading obtained when this same question was asked both six months and a year ago.

One reason for the increased hold-the-price-line optimism—aside from less ebullient demand—could be the absence of any serious supply restraints. This shows up in the answer to a question on capacity—with only 27% reporting current operating rates of 90% or more—down significantly from the 39% figure of just six months earlier.

At any rate, Bretz, taking his cue from the survey findings, feels that procurement costs should be relatively flat through the first quarter—and maybe even for the entire first half of the year.

As noted earlier, this confidence on prices has to be weighed against worries about the economy. On the latter score, only 44% of the respondents said they are optimistic about the new year—well under the near 70% readings of other recent surveys.

The fact that the remaining 56% are either concerned or actually worried (vs. only 31% six months ago) does seem to suggest that 1985 will be a year that will bear close watching.

Top executives are still bullish

Top corporate executives are still bullish on America.

The demand gains the business pros see for 1985 are far from spectacular. But the average advance seen for all manufacturing is still impressive given the fact that the nation is now entering its third consecutive year of business recovery.

Inflation estimates are also on the rosy side—with not one single industry anticipating more than a 6% price increase. While capital spending may decelerate, most industries will still remain firmly in the plus column as far as adding new plants and equipment.

Here are some of the actual details—culled from a new McGraw-Hill survey of more than 550 leading U.S. firms:

Growth: Real demand (sales deflated for price increases) is expected to rise by about 4.4% in the manufacturing sector over the new year—with durable goods outpacing the average.

Biggest individual advances projected: aerospace (11.5%), electrical machinery (10.0%), fabricated metals (8.5%), and instruments (8.1%). On the other hand, rather poor performances are seen in a few sectors—namely textiles (up only 0.3%), nonferrous metals (up 0.5%), rubber and plastics (up 1.3%), and automotive (up 1.9%).

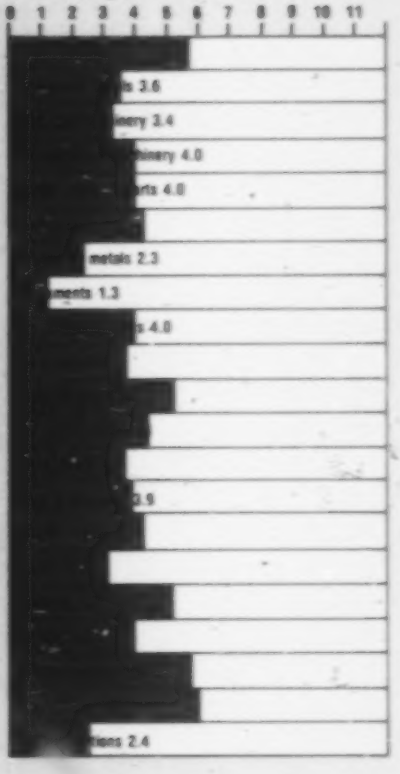
Prices: Only about a 4% increase in industrial inflation is currently being projected. This, incidentally, is pretty much in line with forecasts being made by purchasing managers, business analysts, and most econometric models.

But again there could be some industry-by-industry variations. Specifically, lower-than-average increases are anticipated for instruments (1.3%), fabricated metals (2.3%), and communications (2.4%).

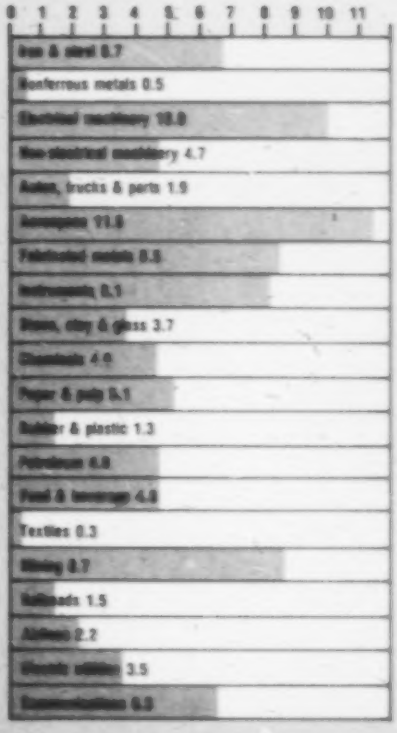
On the other hand, bigger-than-average boosts could be in the cards for gas utilities (6.0%), electric utilities (5.8%), iron and steel (5.7%), paper and pulp (5.3%), railroads (5.1%), and plant and

How business views 1985

Prices
(% change 85/84)



Real demand:
(% change 85/84)



equipment viewed as a whole (5.3%).

Capital spending: Some slowdown in the rate of increase is expected—with the total anticipated gain falling from near 15% in real terms in 1984 to only about 4.3% over the next 12 months.

But following a banner 1984, this should not be construed as being overly bearish. Also, as the survey points out, corporate executives tend to underestimate capital spending when talking about an upcoming year—with the average shortfall over the past few decades put at near 4.5%. If this holds true for 1985, then inflation-adjusted spending gains could be more in the order of 9-10%.

But even without some upward adjustment, there are some industries that will do amazingly well on the capital spending front in 1985. Autos are a case in point—where a whopping 36-37% real increase is projected. And it makes a lot of sense for two reasons: (1) There is still a need to raise productivity to compete with imports, and (2) Automotive profits are high enough to finance major capital projects.

Some other durable goods industries are sporting hefty 1985 capital budgets, too. Steel, enjoying its first profitable year since 1981, plans a huge 32% real increase in spending. And nonelectrical equipment, buoyed by a strong order pattern (up 25% in 1984), is planning on a real spending jump.

The projected capital goods increases in nondurables will generally be smaller than those planned for durables—with the average rising only 8% in real terms. Moreover, some key sectors will fall below this average—notably paper, where only a 5% real gain is projected.

But even this doesn't tell the whole story. Textile mills, for example, actually expect to cut their outlays by 12% in real terms—as the industry's cash position is adversely affected by competitive pricing and a huge import influx.

A mixed picture is suggested in transportation. Railroads, for example, plan on a relatively flat pattern—unchanged from 1984 which was up by more than 35%. But the airlines are heading for a big 25% real increase—in sharp contrast to the 23% decline noted during 1984.

A few words are also in order about preliminary 1986 capital spending estimates. They are currently expected to be off 2% in current dollar terms—and probably 6-7% in real terms if 1985 price patterns spill over into the following year.

To be sure, forecasts for more than one year ahead are usually subject to change—and generally undershoot the mark. Nevertheless, in the words of one McGraw-Hill spokesman, "The 1986 projection is unusually low and may thus give pause for thought."

Models agree economy will grow—but slower

There is a surprising consensus among the big computer-based econometric models these days. With little or no variation, they are all signaling modest deceleration in the rate of growth over the coming year—plus another 12 months of tolerable price increases.

The picture isn't bad. It suggests continuing, although smaller, gains—thus refuting the prophets of gloom and doom who see a recession ahead.

Instead, the forecasts are actually better than those made six months ago in *PW*'s mid-year report (*July 1984*). At that time, the average real GNP advance for 1985 for the four models was put at 2.5%—some 0.5 percent under the recently revised estimate.

Prospects for 1986 do not suggest

PW's econometric model printout

Real GNP (% change)	1985	1986
DRI	2.7	2.2
Chase	2.5	3.0
Wharton	3.6	1.5
Merrill Lynch	3.1	2.5
AVERAGE	**3.0**	**2.3**
Industrial production (% change)		
DRI	2.4	2.6
Chase	2.9	1.3
Wharton	3.6	0.7
Merrill Lynch	3.4	1.0
AVERAGE	**3.4**	**1.4**
GNP price deflator (% change)		
DRI	3.8	4.5
Chase	4.4	5.6
Wharton	4.5	5.5
Merrill Lynch	4.5	5.1
AVERAGE	**4.3**	**5.1**
Finished producer prices (% change)		
DRI	2.5	4.2
Chase	2.4	4.3
Wharton	3.3	4.8
Merrill Lynch	4.2	3.5
AVERAGE	**3.1**	**4.2**
Consumer prices (% change)		
DRI	3.9	4.5
Chase	4.0	4.9
Wharton	3.8	5.0
Merrill Lynch	5.0	5.0
AVERAGE	**4.2**	**4.8**
Prime interest rate (%)		
DRI	13.5	12.3
Chase	11.8	12.2
Wharton	12.4	14.2
Merrill Lynch	13.0	11.3
AVERAGE	**12.7**	**12.5**
Unemployment rate (%)		
DRI	7.3	7.7
Chase	7.4	7.6
Wharton	6.5	6.9
Merrill Lynch	7.3	7.5
AVERAGE	**7.1**	**7.4**

disaster either. Not one single model sees an actual decline—with the overall gain that year generally put in the 3% range—quite acceptable considering that 1986 would be the fourth consecutive year of business recovery.

Equally significant, the same optimism seems to have spread to the price sphere. In fact, the previous estimate for the 1985 GNP deflator advance—5.5%—has been toned down more than a full point to 4.3%.

The improvement is even more apparent in the producer price sector where an earlier 6.0% increase has dropped to only 3.1%. And the same is true of the cost-of-living index where a 5.8% increase has been revised downward to only 4.2%.

Comments by spokesmen for all four of the econometric models indicate that the price improvement stems from a combination of several factors, including a strong dollar, ample supplies, relatively restrained labor cost increases, the absence of any new energy pressures, and a bumper food crop.

Note, too, that this same pattern of relatively restrained inflation is expected to spill into 1986 with all three of the price yardsticks just mentioned (the GNP price deflator, finished producer prices, and the cost of living) expected to accelerate by only one percentage point or less.

This is not to say that the next two years will be problem-free. Interest rates, for example, are expected to remain high—with the averages for both 1985 and 1986 put at 12.5% (almost 1.5% above recent lows).

Nor are jobless rates likely to fall. The 7.1% and 7.4% averages projected for 1985 and 1986, for example, are only fractionally under last year's reading. And as one model analyst puts it: "This is still well above historical norms."

Finally, a few words on the accuracy of these mathematical forecasts would seem to be in order. The model building profession has been the target for considerable flak in recent years. But there are several reasons why increased confidence now seems to be justified: (1) Forecasting approaches have been fine-tuned to make them more realistic; (2) 1984 projections were pretty much on the mark; and (3) there is (as suggested above) little disagreement on the part of all four surveyed models as to where we seem to be heading over the next year or so.

On the latter score, there is generally less than one percentage point difference in individual model estimates of real GNP, industrial production, most price yardsticks, unemployment rates, and interest rates. Apparently the signals that call the turn on these key economic variables are coming in loud and clear this time around.

Some product lines in for hefty price boosts

Don't be fooled by the slight average increases being projected by most big-picture price indexes. They could be masking some fairly substantial boosts in individual product lines.

Thus some steel and nonferrous products—which have so far failed to recover from the last recession—seem headed for some hefty increases. And machinery items won't be quite the bargain they have been over the past few years.

This appraisal, part of the latest Data Resources Inc. (DRI) quarterly outlook, can best be summed up as follows: Past emphasis on price inflation is shifting to more specific timing and attention to relative escalation of individual product prices.

Here is DRI's more detailed rundown on how specific price trends are shaping up over the next two years (please refer to the accompa-

Price outlook through 1986
(Comparison of fourth quarter pricing)

Percent change	1985/84	1986/85
Raw materials, energy		
Pulp and paper	5.8	6.3
Supplies for manufacturing	11.2	9.3
Residual fuels	3.8	1.9
Processed fuels & lubricants	3.2	1.8
Metals		
Nonferrous scrap	8.9	13.3
HR steel bars (carbon special)	4.2	6.7
HR steel strip (carbon)	5.7	7.8
Copper & brass mill shapes	9.4	8.3
Hardware	4.2	4.9
Components		
Laminated plastic sheets	3.0	5.8
Internal combustion engines	5.1	7.2
Primary batteries	3.2	6.9
Electronic parts	2.2	3.8
Machine shop products	8.3	6.5
Fasteners	4.0	7.1
Tires	4.7	5.2
Construction products		
Plumbing fixtures	6.6	7.6
Insulation board	3.6	2.8
Asphalt roofing	5.0	5.3
Concrete ingredients	8.0	7.7
Concrete products	8.2	7.1
Metal doors	5.0	7.0
Prepared paint	3.7	4.6
Measuring		
Integrating & measuring instruments	4.6	3.8
Metalworking machinery	6.2	6.3
Oil field equipment	5.1	7.6
Trucks	5.4	6.7
Special industrial machinery	10.2	8.5
Transformers & power regulators	4.0	4.7
Pumps and compressors	7.3	7.6

Source: Data Resources, Inc. Cost Forecasting Service

For additional copies of this special "Forecast '85" issue, please contact PurchasingWorld, 6521 Davis Industrial Pkwy., Solon, OH 44139.

nying chart for additional details).

- **Natural gas**: Recent crude oil price declines will continue to exert competitive pressure on gas. This petroleum factor, combined with a gas surplus, should undermine chances of rapid escalation following this month's partial deregulation of the industry. As such, producer prices for gas fuels are projected to advance at only a 1.1% average annual rate over the 1985-86 period.
- **Electricity**: Some deceleration is being projected after the big 9% jump reported for the first nine months of 1984. Specifically, the producer price index for electricity projects an average annual rate of only 4.8% this year and 3.6% for 1986.
- **Steel**: Acceleration seems to be unavoidable—with the official producer price index of steel mill products moving up 5% over the next four quarters and about 6.8% in 1986—well above last year's modest 3% advance.
- **Nonferrous metals**: Some fairly big hikes are likely. Increases for 1985 and 1986 are estimated as follows: domestic copper cathode (12.2% and 10%, respectively), primary aluminum ingot (4.6% and 9.9%), lead (7.4% and 6.4%), and zinc die casting alloy (6.6% and 7.5%).
- **Metal components**: Good news here. The seven product lines monitored by DRI are expected to move up only 4.1% this year and 5% in 1986.
- **Industrial chemicals**: Potent foreign competition, combined with modest cost escalation, suggests about a 3.1% average annual advance over the next two years.
- **Construction materials**: A mixed picture for 1985—hikes as high as 8.6% are seen for sand, gravel, and crushed stone. These will be offset by fractional declines of 0.2% and 0.3% in plastic construction products and flat glass, respectively. The bulk of the 1985 hikes will fall in the 3.5-4.5% range.

For 1986, average increases could accelerate into the 4.6-6.5% range.

- **Electronic components**: Capacitors, which declined 0.8% in 1984, are expected to rise 1.8% and 5.4% in 1985 and 1986. On the other hand, the MOS integrated circuit price index (which rose 4.8% in 1984 because of shortages) will drop 0.6% in 1985 and by an even bigger 1.6% in 1986—as the price of the newer 256K DRAMS and CMOS technology comes down.
- **Machinery**: Producer goods, on average, will escalate slowly—rising 4.2% by 1986 (vs. only 1.6% in 1983). Increases in electrical machinery will be above this average—4.5% over the next four quarters and 5.9% in 1986. Ditto construction machinery where increases for 1985 and 1986 are projected at 6% and 8.1% respectively. ***PW***

Coming up in the February issue of PW: Trends in Software Buying

Coming up in the March issue of PW: Special Report on Transportation

Coming up in the April issue of PW: Steel Market Trends

PMs aren't "buying" talk of recession

Another good year seems to be in the making. But depending on the industry in question, there could be significant variations on both the demand and price fronts.

That's the thrust of a new nationwide *PurchasingWorld* "forecast" survey. To be sure, few of the survey respondents see actual sales declines or a return to double-digit inflation. But the survey findings do suggest an end to the rather homogeneous pattern of the last 12 months.

The situation is perhaps best summed up by one Midwestern buying executive who feels that "imbalances are unavoidable after two straight years of recovery. And while we should continue to end up in the plus column, things are not going to be quite as easy as they were in 1984."

Some of the survey's more specific findings tell the story:

■ **1985 company demand:** The average 4-5% anticipated increase masks some wide differences. More than 40% of the respondents are betting on 5% or higher gains—while at the other end of the spectrum one out of four sees no gain or even actual decline.

■ **1985 GNP trends:** PMs apparently are not buying talk of a recession. When asked to differentiate between the first and second halves of the year, a surprising 51% thought that the last six months of the year would be better than the first six—more than three times the 16% who felt smaller gains might be in the cards.

■ **1985 prices:** The average 4.5% increase in the typical firm's procurement costs is about what most other analysts are calling for. There could be some exceptions, however—one out of ten respondents anticipates price increases of 7% or more. Also worth noting: About half the queried buyers say that their average price increase will be larger in 1985 than it was in 1984.

■ **Second half 1985 prices:** Some speed-up from the first half to the second half is also expected—59% anticipate price acceleration in the last six months—in sharp contrast to the 3% who feel that increases may simmer down as the year wears on. A more reassuring note: Virtually all of those respondents projecting acceleration say that it will be quite moderate.

■ **Inventories:** Close-to-the-vest strategy is apparently still the order of the day. Despite anticipated demand gains, less than one out of ten respondents plans to boost near-term stock levels. The fact that 41% are anticipating reductions has to be regarded as significant.

■ **Leadtimes:** Pretty much the status-quo here. True, one out of four buyers sees somewhat longer waits. But that is offset by a similar number of survey respondents seeing contractions. The remaining 50% are betting on little or no overall change. This, incidentally, marks a change from a year ago when a similar question elicited a 79% response for stretchouts and only 7% for shorter leadtimes.

■ **Supply problems:** Dislocations are expected to be few and far between—with only 13% of those surveyed expecting any kind of headaches. And even those should be spotty—limited to integrated circuits and other solid state devices, kraft paper boxes, and tall oil fatty acids.

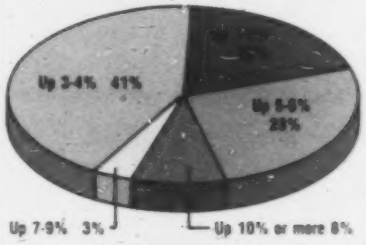
Conspicuous by its absence is concern about metals, chemicals, and component parts expressed last year at this time.

■ **1985 problems:** High on the list of possible headaches are (1) the need to beat back price-boosting attempts which are expected to become a lot more numerous this year, (2) product quality which still leaves a lot to be desired in some areas, (3) the very real possibility of strikes, (4) the impact of foreign import curbs—especially on steel and textiles, (5) continuing high interest rates, and (6) the financial health of some of the smaller suppliers.

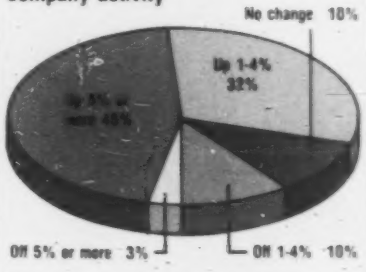
■ **1985 purchasing strategies:** The accent these days is on improving quality, insuring better on-time delivery performance, and the development of more long-term commitments. More consideration is also being given to foreign sourcing, continuing development of just-in-time inventory systems, consolidation of buying, and reduction of supplier bases (with emphasis on fewer but stronger vendors). ***PW***

How PW readers see 1985

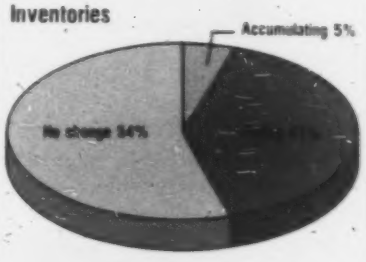
Procurement costs



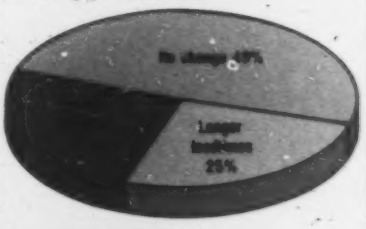
Company activity



Inventories



Delivery performance



Source: PurchasingWorld